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TAGS: EINV ETRD PREL IZ JO
SUBJECT: IRAQ'S PRIVATE SECTOR INDUSTRIALISTS LOOK FOR LEG
UP

REF: A. AMMAN 3190
B. AMMAN 3456

¶1. (u) Summary: In a meeting with econoff hosted by the local AmCham, a visiting delegation from the Iraq Federation of Industries requested a meeting with CPA Chief Ambassador Bremer, and sought support for the establishment of a joint US-Jordanian-Iraqi Chamber of Commerce. Federation Board Members described the state of key industrial sectors and asked for help in re-constituting private sector industry in Iraq through sector reform and match-making with potential foreign joint venture partners. While conditions in industry were described as seriously deficient, the Federation is confident Iraqi private sector businesses can help now to rebuild the country's infrastructure, if they are given the opportunity. An overview of selected sectors as provided by federation is listed at the end of this cable. End Summary.

IRAQI INDUSTRIALIST SEEKS SPECIAL SOMEONE

¶2. (u) Five board members of the Iraqi Federation of Industries, visiting Amman to participate in a June 5 reconstruction conference (ref b), met econoff June 10 at the Amman Chamber of Industry to describe the state of their industries and to request assistance in jumpstarting Iraq's private manufacturing sectors. The Federation met earlier in the week with GOJ economic ministries and technical staff, and inked a "cooperation agreement" with the Jordan Businessmen's Association (a business executives' association) on June 9.

¶3. (u) Federation Vice President Hamzah Habib said the first priority of the Federation was to gain a meeting with CPA head Ambassador Bremer. Habib said Iraqi private sector companies were being left out of the rebuilding effort, and said the Federation believed an introduction to OCPA would give them a chance to show their capabilities and offer their services. To this end, Habib asked that Embassy pass Bremer a verbal invitation to visit the Federation's "provisional" office (the previous office has been bombed, burned out, and looted) at the al Auchi building, opposite the old Agriculture Ministry and next to the Babylon Bank.

¶4. (u) Habib said the Federation hoped to create soon a joint U.S.-Jordanian-Iraqi Chamber of Commerce that could facilitate match-making and other commercial activity among associations from the three countries. He said he had already spoken with the Amman Chamber of Industry and the Jordanian AmCham, JABA (both of whom were present) about cooperation in this regard. Econoff noted there would undoubtedly be interest in the U.S. and Jordanian private sectors in business opportunities in Iraq, and welcomed the Federation's cooperation with JABA and ACI as a first step toward exploring those opportunities with the U.S. private sector. (JABA reps later told econoff they were developing a plan to serve as a bridge between the National U.S.-Arab Chamber of Commerce and/or the U.S. Chamber of Commerce with credible Iraqi businesses.)

ADVENTUROUS SPIRIT A PLUS

¶5. (u) Habib said the Federation represented over 25,000 private sector entities covering all sectors of the Iraqi private economy. These entities, he said, collectively employed over 3 million people in their heyday. He noted, though, that since the Saddam Hussein regime began funneling production away from the private sector and into the hands of State-Owned Enterprises (SOE's) and foreign firms in 1995, the private sector had stagnated. As a result, Habib estimated 90-95% of private businesses were non-operational and virtually all employees were out of work. He attributed lack of access to contracts and raw materials since 1995 as key contributors to the collapse of the private sector, adding that these troubles continued in the present day and were compounded by the absence of a financial system - which had already wiped out business savings and frozen out access to credit for rebuilding businesses. Nevertheless, he said, some businesses were still operating, and could prove willing and able partners to foreign firms with a high tolerance for adventure (i.e., risk and ambiguity).

MUST HAVE OWN RAW MATERIALS

16. (u) Habib said the primary hurdle to restarting production was lack of access to raw materials. Under Saddam, what little raw materials Iraq had were funneled to SOE's, which were also subsidized when buying inputs from abroad. Private sector enterprises, by and large, could not compete with SOE's preferential treatment or economies of scale. Similarly, private sector companies during the sanctions years lost all access to spare parts and replacement equipment. As a result, Habib said that the small percentage of operational equipment in the private sector was at least a decade old, and some machinery dated back to the 1970's. He said this resulted in Iraqi businesses being relatively more labor-intensive than regional counterparts. He noted further that, despite the age of much of the equipment, industries in lower-tech sectors like construction materials and wood working could still be relied on to produce for the local market.

GULF NEED NOT APPLY

17. (u) Habib said Iraqis were eager to see SOE's privatized as soon as possible, and said his members looked forward to having opportunities to enter into joint ventures with prospective buyers of existing SOE's. He added that preserving SOE's as active entities remaining under state control would be totally unacceptable to the Iraqi people. Habib expressed the opinion that the CPA "should not let companies from the Gulf" take over privatized SOE's. He said sale to the Gulf of these key Iraqi assets would deeply anger many Iraqis, who had poor relations with, and deep distrust of, their Gulf neighbors. Habib said the only "acceptable" partners for Iraqi interests in the privatization process were "the Americans and the Jordanians," the former because they had freed the Iraqi people and the latter because they had strong ties to the Iraqis.

SNAPSHOT ATTACHED

18. (u) Following are brief outlines of selected industry sectors provided to econoff by the Federation. The numbers are probably not accurate, but could serve as good ballpark figures.

Woodworking --

Number of private sector entities: 2,000
Entities with "significant" employment (>50 workers): 20%
Entities currently active: 5-10%
Sector employment: 500,000
Critical needs: raw materials, equipment upgrades
Specializations: doors/treatments, furniture, school desks

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Construction Materials --

Number of Private sector entities: 12,000
Entities with "significant" employment (>100 workers): 10%
Entities currently active: 5-10%
Sector Employment: 600,000
Critical needs: raw materials, access to contracts, spare parts
Specializations: cement, brick, marble, granite, mosaic tile, ready-mix concrete

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Chemicals --

Number of private sector entities: 1,500
Sector Employment: 750,000-1,000,000
Critical needs: access to raw materials
Specializations: paints, solvents, detergents, emulsions
Prior business: claims prior business interest from Proctor and Gamble

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Engineering/Machinery/Metalworking --

Number of Private Sector entities: 7,000
Entities currently active: 20%
Sector Employment: 3-400,000 (production and servicing)
Critical needs: raw materials, spare parts

Specializations: machinery, spare parts, steel finished goods (incl. furniture, doors, etc.)

Contact: Dr. Thabet al Badawi
c/o Federation of Industries (or Mr. Habib above)

Note: Badawi believes the machinery sector can provide an immediate benefit to reconstruction efforts. He noted that Bechtel's assessment of priorities at ref b conference highlighted the contractor's commitment to, in the first stage, repairing existing equipment instead of upgrading or replacing equipment. Badawi said Iraqi firms are uniquely placed to be able to service and fabricate parts for this outdated equipment, alleviating the need for Bechtel to find outside companies that can reverse-engineer old parts and machinery.

GNEHM